

Effect of the Merger of Ojai Valley Community Hospital with
Community Memorial Hospital on the Accessibility and Availability
of Health Care Services

**Prepared for the Office of the
California Attorney General**

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INTRODUCTION AND PURPOSE

Ojai Valley Community Hospital (“OVCH”), a California non-profit public benefit corporation, has requested the California Attorney General’s consent to the proposed merger of OVCH with Community Memorial Hospital of San Buenaventura (“CMH”), a California non-profit public benefit corporation, under the California Corporations Code section 5920.

OVCH operates Ojai Valley Community Hospital (“Hospital”). The articles of incorporation and bylaws of Community Memorial Hospital (“CMH”) will be amended so that CMH is the surviving corporation and persons representing OVCH will be appointed to CMH’s Board of Trustees. After completion of the merger, CMH intends to continue to operate the Hospital as a general acute care hospital. In November of 2004, a new California, non-profit public benefit corporation, Ojai Valley Community Hospital Foundation (“OVCHF”), was formed whose purpose is to raise funds to support the services of the Hospital after the merger.

This report, prepared for the Office of the Attorney General, describes the possible effects the proposed sale merger may have on the delivery, accessibility, and availability of health care services in the service area.

Medical Development Specialists Inc. (“MDS”), a health care planning and policy consulting firm, has prepared this report based upon the following:

- A review of the documents filed with the Attorney General by Applicant on December 16, 2004 in its notice and request for consent to the transaction.
- Interviews with community members and representatives, OVCH medical staff, OVCH management, the President and Chief Executive Officer of CMH, the Administrator of Ventura County Emergency Services and others knowledgeable of potential community health effects.
- An analysis of financial, utilization and service information provided by OVCH and CMH management.
- An analysis of area health care services using Office of Statewide Health Planning and Development (“OSHPD”) and the UCLA Center for Health Policy Research data.
- Additional information obtained through requests to OVCH and CMH.

BACKGROUND AND DESCRIPTION OF THE TRANSACTION

Ojai Valley Community Hospital is a general acute care hospital licensed for 103 beds and located in Ojai, California (Ventura County), approximately 21 miles from CMH's only hospital. The OVCH Board desires to merge with CMH because increasingly poor utilization rates and financial performance make the Hospital's future financial viability questionable. The OVCH Board believes that CMH can assist the Hospital to attain the efficiencies, economies of scale and the access to capital necessary to continue operation.

Community Memorial Hospital of San Buenaventura is a part of Caduceus Medical Management, Inc. ("Caduceus"), a non-profit public benefit corporation. Caduceus is also the parent of Community Memorial Healthcare Foundation and Buenaventura Daycare, Inc., both California non-profit public benefit corporations. CMH operates a general acute care hospital, licensed for 220 beds, located in Ventura California. CMH also owns Buenavista Medical Properties, Inc., a California for profit corporation which in turn is the general partner and majority interest holder in Buenavista Medical Properties, Ltd., a California limited partnership, which is part owner of a medical office building adjacent to CMH.

History of Ojai Valley Community Hospital

OVCH was built in 1960, with additions in 1973 and 1977, to serve the residents of Ojai Valley, an east-to-west laying valley 10 miles long and three miles wide. It was initially owned by a group of investors and its ownership has changed hands several times over the last four decades. In October of 2000, a group of local citizens purchased the Hospital from Brim Hospitals, Inc. (a for profit company), for a reported price of \$2,500,000, through the existing foundation and established it as a non-profit organization. The Hospital currently provides inpatient, outpatient and skilled nursing services and operates a 24-hour stand-by emergency room facility.

Reasons for the Merger

The Hospital currently has a total of 103 licensed beds for both general acute and sub-acute care patients. During the last few years of operation, OVCH has been unable to increase the level of general acute care services beyond an average daily census of 10 patients, despite population growth within its service area. The skilled nursing service, however, has operated at high occupancy until recently, with an average daily census reaching as high as 63 patients on 66 licensed skilled nursing beds. Some of the patients utilizing these services are admitted on a long-term basis. Because of low utilization of the general acute care service, increasing costs of operation, and limited reimbursement, the financial performance of the Hospital has been poor and continues to decline.

In addition, OVCH faces significant capital equipment and facility replacement and/or retrofit costs necessary to maintain the facility and bring it up to seismic safety standards by January 1, 2013.

Summary of the Merger Agreement

The major provisions of the Merger Agreement dated October 26, 2004 include the following:

- OVCH will be merged into CMH, with CMH being the surviving corporation, and two persons representing OVCH will be appointed to the CMH Board of Trustees. Additionally, the Chief of Staff of OVCH will have an ex-officio Board membership with voting rights.
- The assets of OVCH being merged into CMH include the site consisting of approximately 7.8 acres, two buildings containing a total of 46,605 square feet, fixtures, and property including equipment, records, licenses, supplies, inventory and all other property for use in operation of the Hospital.
- CMH will maintain OVCH as a separately licensed operating unit and will use reasonable efforts to maintain a separate medical staff.
- CMH will continue to license the Hospital as a general acute care facility for a period not less than three years from the closing of the transaction. However, during this time the CMH Board may elect to reduce, eliminate or change any services.
- CMH will continue to provide emergency services during this three year time period.
- If at any time within the six year period after the transaction closing date, CMH determines that the operations of the Hospital are no longer financially sustainable, it can provide notice to the OVCH Foundation which then will have an option to acquire the assets and liabilities of the Hospital for the lesser of \$2 million dollars or the amount of advances provided by CMH to the Hospital. The OVCH Foundation's option to acquire the Hospital is limited to preclude the participation of any of CMH's competitors in subsequent ownership structures for five years.
- The Merger Agreement states that CMH shall provide an amount of charity care on an annual basis equal to the average annual hospital charity care amount provided by OVCH during the three prior fiscal years before the transaction closing. The amount provided will be determined on a three year rolling average basis not to be less in average than this average annual hospital charity care amount. Based upon numbers provided in the merger agreement and by OVCH, this amount would be \$310,594 in patient charges.
- CMH will provide the new OVCH Foundation a \$50,000 working capital line of credit to provide for its operating expenses until such time as donated funds are sufficient to cover its operating costs.

OJAI VALLEY COMMUNITY HOSPITAL PROGRAMS AND SERVICES

Profile

Ojai Valley Community Hospital is a 103-licensed bed, non-profit, community-based acute care facility located at 1306 Maricopa Highway, Ojai, California 93023. The physical plant consists of 46,405 square feet, which includes a 27,212 square foot acute care hospital and a 19,193 square foot skilled nursing facility. OVCH is located on approximately 8 acres of land.

Key Statistics

Ojai Valley Community Hospital is licensed for a total of 103 beds as follows:

33	Unspecified general acute care
4	Intensive care
66	Skilled nursing

OJAI VALLEY COMMUNITY HOSPITAL KEY STATISTICS	
Inpatient Discharges	1,268
Average Daily Census	65.8
Outpatient Visits	34,469
Emergency Visits	7,822
Active Physicians on Medical Staff	30
Number of Employees	280
Sources: FY '03 OSHPD Disclosure Report (most recent submitted and audited report available).	

Programs and Services

OVCH is a community hospital that offers the following primary and secondary services:

- 24 hour emergency services (stand-by)
- Medical, surgical and intensive care/critical care services
- Inpatient and outpatient surgery
- Pulmonary and cardiac rehabilitation services
- Physical, speech, hand and occupational therapy services
- Diagnostic imaging and mammography services (including ultrasound, CT scanner, MRI, nuclear medicine, fluoroscopy, portable X-ray, and mammography)
- Pharmacy
- Skilled nursing/transitional care
- Laboratory services
- Dietary services
- A migraine headache clinic

OVCH does not offer the following services:

- Inpatient burn care
- Cardiovascular surgery
- Neonatal or pediatric intensive care
- Mental health or chemical dependency services
- Inpatient rehabilitation unit
- Transplant services
- Complex surgeries – neurosurgery, spine surgery, multi-systemic procedures
- Trauma services (not a designated trauma center)

The following table shows the volume and capacity trends at OVCH for fiscal years 1999 through 2004.

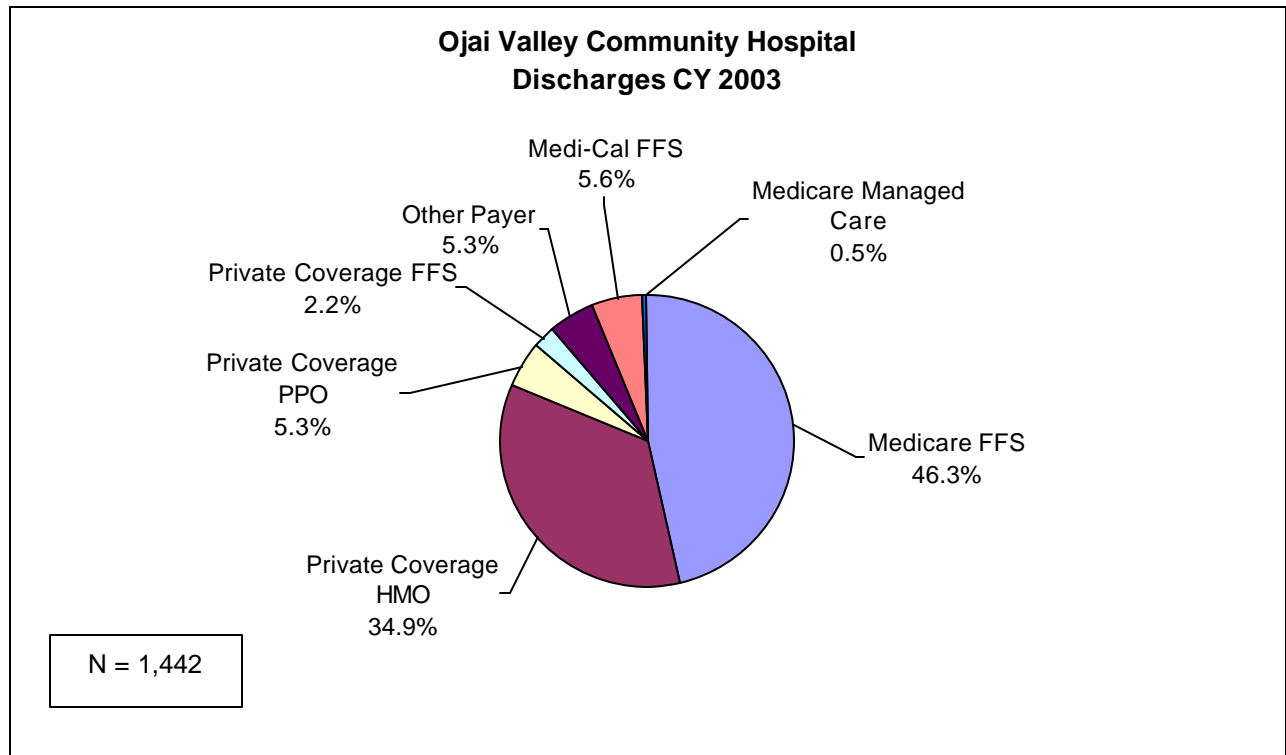
OJAI VALLEY COMMUNITY HOSPITAL SERVICE VOLUMES						
	1999	2000	2001	2002	2003	2004*
PATIENT DAYS						
Medical ICU/CCU	514	458	632	794	796	639
Med/Surg	3,286	1,793	3,364	3,437	3,013	2,437
Obstetrics	411	127	N/A	N/A	N/A	N/A
Skilled Nursing	23,316	16,085	22,022	22,565	22,526	20,989
Total	27,527	18,463	26,018	26,796	26,335	24,065
DISCHARGES						
Medical ICU/CCU	166	158	194	217	220	125
Med/Surg	1,080	685	1,110	1,075	1,050	898
Obstetrics	168	40	N/A	N/A	N/A	N/A
Skilled Nursing	116	191	177	196	236	245
Total	1,530	1,074	1,481	1,488	1,506	1,268
AVERAGE DAILY CENSUS						
Medical ICU/CCU	1.41	1.25	1.73	2.18	2.18	1.75
Med/Surg	9	4.91	9.22	9.42	8.25	6.66
Obstetrics	1.13	0.35	N/A	N/A	N/A	N/A
Skilled Nursing	63.88	44.07	60.33	61.82	61.72	57.35
Total	75.42	50.58	71.28	73.41	72.15	65.75
OTHER SERVICES						
Rural Health Clinic	4,203	3,946	5,429	6,008	6,664	6,405
I/P Surgeries	378	285	289	280	286	313
O/P Surgeries	738	675	667	646	660	603
ER Visits	6,356	4,811	7,724	7,902	7,838	7,822
<p>Source: OSHPD Disclosure Reports, fiscal years ending 9/30 for 2001-2003, 1999 based on fiscal year, ending 12/31. Year 2000 data based on nine months data (1/1/2000 to 9/30/2000) due to fiscal year change. OVCH internal data.</p> <p>* 2004 Data based on OVCH internal data.</p>						

A review of historical utilization trends supports the following conclusions:

- Discharges and patient days decreased substantially in 2004.
- Occupancy rates for medical/surgical beds have been low (below 25%) for the past six years with the average daily census remaining below 10 patients each year.
- Obstetrical deliveries are no longer performed at OVCH (the service was closed in 2000).
- The Rural Health Clinic has significantly increased its volume since 1999 and 2000.
- Emergency room visits have increased overall in the last six years but have shown slight decreases since 2002, while statewide, emergency room visits continue to increase.
- In contrast to statewide hospital increases, OVCH's inpatient and outpatient surgeries have declined slightly over the six year time period; however, inpatient surgeries did increase in 2004.
- OVCH has a relatively low surgical volume with substantial available capacity to increase surgical volume within its operating rooms.

Payer Mix

Most patients discharged from OVCH have either fee-for-service Medicare (46.3%) or private HMO (34.9%) insurance coverage.



*Other includes self-pay, workers' compensation, county indigent, other indigent, other government, and other payers.

** Includes acute care and skilled nursing

Source: OSHPD 2003 Inpatient Discharge Database (Excludes normal newborns DRG 391)

Medical Staff

There are 63 active, courtesy, and provisional physicians on the medical staff, which is a small staff compared to hospitals statewide. Approximately 30 physicians on staff are active. Many of the non “active” physicians live and have their primary practices in Ventura or Santa Barbara. Numerous specialties are not represented (see list below) indicating the relatively narrow service focus at OVCH. Ninety-five percent (95%) of OVCH’s active physicians are board certified which is a high percentage by industry standards.

OJAI VALLEY COMMUNITY HOSPITAL MEDICAL STAFF 2004			
Specialty	Non-Hospital Based	Hospital Based	Total
Anesthesiology		3	3
Cardiology	1		1
Emergency Medicine		4	4
Gastroenterology	5		5
General/Family Practice	9		9
General Surgery	2		2
Internal Medicine	6		6
Hematology/Oncology	1		1
Nuclear Medicine	2		2
Ophthalmology	1		1
Orthopedic Surgery	3		3
Otolaryngology	1		1
Pathology		1	1
Pediatrics	2		2
Physical Medicine/Rehabilitation	1		1
Plastic Surgery	2		2
Podiatry	1		1
Psychiatry	1		1
Pulmonology	3		3
Radiology		11	11
Urology	3		3
Total	44	19	63
Source: OCVH			

Specialties which are not represented on the medical staff include the following:

- Allergy
- Cardiovascular surgery
- Dermatology
- Endocrinology
- Infectious disease
- Nephrology
- Neurology
- Neurosurgery
- OB/GYN
- Perinatology
- Psychiatry
- Thoracic surgery
- Vascular surgery

Financial Profile

OJAI VALLEY COMMUNITY HOSPITAL FINANCIAL AND RATIO ANALYSIS						California Median 2003
	1999	2000	2001	2002	2003	
Patient Days	27,527	18,463	26,018	26,726	26,334	
Discharges	1,530	1,074	1,481	1,488	1,506	
Average Length of Stay	18.0	17.2	17.6	18.0	17.5	
Net Operating Revenue	\$14,359,281	\$10,190,557	\$15,010,156	\$15,712,999	\$16,622,408	
Total Expense	\$14,105,161	\$10,496,974	\$15,262,465	\$15,926,735	\$17,070,668	
Net from Operations	\$254,120	-\$306,417	-\$252,309	-\$213,736	-\$448,260	
Net Non-Operating Rev.	\$0	\$127,789	\$229,943	\$452,271	\$493,650	
Net Non-Operating Exp	\$7,557	\$0	\$25,772	\$0	\$0	
Net Income (1)	\$246,563	-\$178,628	-\$48,138	\$238,535	\$45,390	
Current Ratio	0.44	0.50	2.04	1.89	1.84	1.5
Days in A/R	49.2	61.7	56.6	42.5	44.3	71.5
Bad Debt Rate	1.4%	0.8%	2.1%	0.8%	0.6%	1.8%
Operating Margin	1.8%	-3.0%	-1.7%	-1.4%	-2.7%	1.2%

Source: OSHPD Disclosure Reports, fiscal years ending 9/30 for 2001-2003, 1999 based on fiscal year, ending 12/31. Year 2000 data based on nine months data (1/1/2000 to 9/30/2000) due to fiscal year change. Net Income on 1999 OSHPD Disclosure Report stated as \$145,362.

OVCH has reported a net loss from operations for the last four fiscal years. Unrestricted donations and grants helped reduce the operating loss with an overall loss in net income for two out of the past four fiscal years. Expenses grew from 2002 to 2003 by 7.2%, while net operating revenue only grew by 5.8%. The financial position for OVCH reportedly deteriorated further in 2004, with continued operating losses and a net income loss of approximately \$1.5 million.

Cost of Services

The operating cost of services for both inpatients and outpatients was calculated for the past five years. Overall, costs have increased by 21%. The costs associated with Medicare patients have more than doubled in the previous four years. Medicare and Medi-Cal patients together account for the majority of costs (60% in 2003) at OVCH.

OVCH COST OF SERVICES - BY PAYER CATEGORY						
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	4-Yr Change
Operating Expenses	\$14,105,161	\$10,496,974	\$15,262,465	\$15,926,735	\$17,070,668	21.0%
Cost of Services By Category						
Medicare	\$3,095,149	\$4,393,031	\$6,696,660	\$6,874,470	\$7,492,522	142.1%
Medi-Cal	\$3,159,708	\$2,053,634	\$2,813,703	\$2,753,427	\$2,751,650	-12.9%
Indigent	\$0	\$604	\$39,619	\$0	\$0	0.0%
Third Party	\$7,066,652	\$3,532,649	\$5,057,763	\$5,517,776	\$5,914,785	-16.3%
Other	\$783,652	\$517,056	\$654,720	\$781,063	\$911,710	16.3%
Source: OSHPD Disclosure Reports, OVCH's fiscal years ended on 9/30 in 2001-2003 and 12/31 in 1999, 2000 is nine months of data (1/1/2000 to 9/30/2000) due to the fiscal year end change.						

Charity Care

Because individual hospital reports of charity care charges often differ, MDS measured the five year trend of charity care charges from various sources.

MDS relied on the final OSHPD reports and the OSHPD website which stated the same charity care charges for the five fiscal year period as follows:

- 1999 total charity care charges: \$156,172
- 2000 total charity care charges: \$68,833
- 2001 total charity care charges: \$136,027
- 2002 total charity care charges: \$120,383
- 2003 total charity care charges: \$363,413

The table below shows charges for charity care adjusted to costs for charity care based upon applying the hospital's ratio of cost to charges for each year.

COST OF CHARITY CARE TO OVCH				
Year	OVCH Charity Care Charges (1)	Cost to Charge Ratio (1)	Cost of Charity Care to OVCH	Percent of Total Costs Represented by Charity Care
2004	\$460,322	50.7%	\$233,383	N/A
2003	\$363,413	50.6%	\$183,908	1.1%
2002	\$120,383	52.3%	\$62,966	0.4%
2001	\$136,027	49.3%	\$67,036	0.4%
2000	\$68,833	48.3%	\$33,260	0.3%
1999	\$156,172	48.5%	\$75,760	0.5%

(1) Source: OSHPD Disclosure Reports, OVCH's fiscal years ended on 9/30 in 2001-2003 and 12/31 in 1999, 2000 is nine months of data (1/1/2000 to 9/30/2000) due to the fiscal year end change. 2004 numbers from OVCH

OVCH submitted charity care numbers in their request for Attorney General consent to merge that were slightly different to OSHPD for FY 2002 (\$108,049) and FY 2001 (\$131,142). The differences are reportedly based on an adjustment for the receipt of funds from Ventura County for indigent care that were not accounted for in the OSHPD submission.

OVCH also reported \$506,415 as the charity amount for FY 2004 in their submission to the Attorney General, but has amended that number to \$460,322. The table below shows the cost of charity care that is calculated to estimate the required dollar amounts for CMH to fulfill its commitment to charity care. (see “Conclusions” section)

CHARITY CARE CONDITIONS				
OVCH				
	2002	2003	2004	Total
Reported Charity Charges	\$120,383	\$363,413	\$460,322	\$944,118
Cost to Charge Ratio	52.3%	50.6%	50.7%	51.2%
Cost of Charity to OVCH	\$62,960	\$183,887	\$233,383	\$483,388
Three Year Average Cost of Charity Care to OVCH				\$161,129
Source: Data for 2002 and 2003 is from final OSHPD Disclosure Reports. The 2004 Charity Care Charges were provided by OVCH. Since final 2004 OSHPD Disclosure Reports were unavailable, the 2004 Cost to Charges ratio was estimated by calculating an average Cost to Charges ratio for fiscal years 2001 through 2003.				

A five year trend of charity care by type of service was provided by OVCH as shown below:

CHARITY CARE BY SERVICE				
OJAI VALLEY COMMUNITY HOSPITAL - 2000 TO 2004				
	By Type of Service			Total Charges/ Cases
	Inpatient	Outpatient	Emergency Room	
2004:				
Charges	\$276,094	\$25,879	\$167,874	\$469,847 ⁽¹⁾
Cases/Visits	30	39	142	211
2003:				
Charges	\$209,986	\$12,437	\$140,989	\$363,412
Cases/Visits	42	39	147	228
2002:				
Charges	\$76,637	\$6,346	\$25,066	\$108,049 ⁽²⁾
Cases/Visits	18	27	36	81
2001:				
Charges	\$113,585	\$2,702	\$14,855	\$131,142 ⁽²⁾
Cases/Visits	21	6	29	56
2000:				
Charges	\$52,488	\$2,497	\$11,015	\$66,000
Cases/Visits	11	8	19	38
Source: Ojai Valley Community Hospital; ⁽¹⁾ Does not adjust for approximately \$9,000 in County indigent funds. ⁽²⁾ Is adjusted for County indigent funds received.				

Community Benefit Services

California Senate Bill 697 requires non-profit hospitals to complete a community benefit plan. OVCH reports that in their transition from a for profit organization in 2000, they were unaware of the requirement and failed to submit reports. OVCH administration states, however, that despite offering various community programs, only one of them (the Rural Health Clinic) would have a cost valued at more than \$10,000 in any year. OVCH community benefit services include an annual community health fair, community education programs, low cost mammography and periodic health screenings.

OVCH offers its Rural Health Clinic in Oak View with services available to low income residents. While the cost of these services would exceed \$10,000 per year, actual figures were not available for this report.

PROFILE OF COMMUNITY MEMORIAL HOSPITAL

CMH operates a 220-bed, non-profit, community owned regional hospital and health center. The hospital is fully licensed by the State of California Department of Health Services and accredited by the Joint Commission on Accreditation of Health Care Organizations.

COMMUNITY MEMORIAL HOSPITAL SAN BUENAVENTURA KEY STATISTICS	
Acute Licensed Beds	220
Patient Days	58,709
Inpatient Discharges	14,087
Average Length of Stay	4.17
Average Daily Census	160.8
Outpatient Visits	213,076
Emergency Visits (outpatient)	33,614
Active Physicians on Medical Staff	295
Number of Employees	1,450
Sources: FY '03 OSHPD Disclosure Report (most recent submitted and audited report available).	

Charitable Care and Financial Position

CMH is a financially stable organization that provides a significant amount of charity care.

COMMUNITY MEMORIAL HOSPITAL OF SAN BUENAVENTURA CHARITY CARE - TOTAL CHARGES	
Year	Charges
2003	\$3,297,823
2002	\$1,916,550
2001	\$3,418,344
2000	\$2,336,676
1999	\$619,580
The OSHPD source is the Individual Hospital Disclosure Reports, 1999-2002 from website (Fiscal Year Ending 12/31). Year 2003 from final OSHPD Disclosure report as of February 17, 2005.	

COMMUNITY MEMORIAL HOSPITAL OF SAN BUENAVENTURA FINANCIAL POSITION FYE 2003	
Income Statement:	
Net Patient Revenue	\$155,022,765
Other Operating Revenue	\$2,371,929
Operating Expense	\$154,444,513
Net from Operations	\$2,950,181
Non Operating Revenue	\$3,125,836
Non Operating Expense	\$2,750,575
Net Income	\$3,325,442
Ratios:	
Current Ratio	2.97
Days in Accounts Receivable	98.7
Bad Debt Rate	1.3%
Operating Margin	1.9%
Balance Sheet	
Assets	
Current Assets	\$85,593,604
Net Property Plant & Eq.	\$63,172,212
Construction In Process	\$5,439,595
Total Investments	\$3,752,887
Total Assets	\$157,958,298
Liabilities	
Current Liabilities	\$28,820,326
Long Term Debt	\$3,327,194
Total Liabilities	\$32,147,520
Total Equity	\$125,810,778
Total Liabilities & Equity	\$157,958,298
Source: OSHPD disclosure Report, fiscal year ending 12/31	

HEALTH CARE SERVICE AREA DESCRIPTION

Service Area Definition

Approximately 91% of OVCH's discharges are from 3 ZIP Codes:

OJAI VALLEY COMMUNITY HOSPITAL SERVICE AREA PATIENT ORIGIN 2003				
ZIP	City	OVCH Discharges	Patient Origin	Cumulative Pt Origin
93023	Ojai	1,040	72.1%	72.1%
93022	Oak View	235	16.3%	88.4%
93024	Ojai ¹	40	2.8%	91.2%
ALL OTHER		127	8.8%	100.0%
TOTAL		1,442	100.0%	
Source: OSHPD (excludes normal newborn DRG 391)				
¹ ZIP Code 93024 is a P.O. Box				

The map below shows OVCH's service area and indicates that OVCH is the only hospital located within the service area. The other four area hospitals are all located southwest of OVCH outside of the service area. Santa Paula Memorial Hospital is closed at the present time but may be reopened as a Ventura County facility. Aurora Vista Del Mar Hospital, Ventura County Medical Center, and Community Memorial Hospital are all located in the city of Ventura.

Demographic Profile

The service area has a total population of 28,112 (2004 estimate). It is projected to decrease slightly by 0.3% over the next five years.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Population			
Total Population	28,112	28,035	-0.3 %
Households	10,207	10,084	-1.2%
Ave. Household Size	2.7	2.7	0.0%
Source: Claritas			

The average age of the service area population is 40.5 years which is significantly older than the State of California as a whole (33.7). “Baby boomers” (45-64) and seniors (over 65) are projected to be the fastest growing age cohorts over the next five years. Women of child bearing age (15-44) and children (0-14) will decrease as a percentage of the total population.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)				
	2004	2009	% Change ('04-'09)	
Age Distribution	Service Area		State	
Age 0-14	19.9%	19.1%	-4.4%	3.4%
Age 15-44	37.1%	36.1%	-3.2%	3.8%
Age 45-64	28.3%	29.7%	4.9%	13.7%
Age 65+	14.7%	15.1%	2.6%	11.7%
Female 15-44	18.8%	18.2%	-3.6%	3.3%
Average Age	40.5	41.4	2.3%	2.1%
Source: Claritas				

The service area is predominately White (over three-quarters) with an increasing Hispanic population. The White population is expected to decline as a percentage of the total population over the next five years, while the percentages of the Black, Hispanic and Asian population are expected to grow.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Ethnicity			
White	78.1%	75.7%	-3.4%
Black	0.6%	0.9%	16.3%
Hispanic	17.5%	19.9%	13.3%
Asian	1.2%	1.2%	0.3%
Other	2.0%	1.9%	-4.1%
Source: Claritas			

The average household income (aggregate household income divided by total households) is \$78,516 and is projected to grow by over 13.7% in the next five years. The median household income is significantly above that for the State as a whole. Approximately 18.9% of households are below \$25,000.

SERVICE AREA DEMOGRAPHICS (2004 & 2009)			
	2004	2009	% Change
Household Income Distribution			
Under \$25,000	18.9%	16.4%	-13.5%
\$25,000-\$49,999	24.9%	22.2%	-10.6%
\$50,000-\$99,000	33.0%	31.9%	-3.4%
\$100,000 +	23.2%	29.5%	27.1%
Average HH Income	\$78,516	\$89,294	13.7%
Source: Claritas			

Area Payer/Insurance Mix

As shown below, approximately 8.1% of area residents are insured through Medi-Cal which is low by both State and County comparisons.

OJAI VALLEY COMMUNITY HOSPITAL SERVICE AREA MEDI-CAL ELIGIBLES		
ZIP	City	Medi-Cal Eligibles
93023	Ojai	1,555
93022	Oak View	602
93024	Ojai	127
TOTAL		2,284
Population		28,112
Percent of Population in Medi-Cal		8.1%
Sources: DHS Website (as of Apr. 2004), Claritas		

As shown in the following table, approximately 16% of the population is Medicare eligible with 26% of beneficiaries enrolled in a managed care plan.

MEDICARE ENROLLEES AND BENEFICIARIES				
ZIP	CITY	ENROLLED	BENEFICIARIES	% ENROLLED
93022	Oak View	220	845	26.0%
93023	Ojai	969	3,321	29.2%
93024	Ojai	0	330	0.0%
TOTAL:		1,189	4,496	26.4%
Source: HCFA, March 2004 (all enrollees are in Secure Horizon).				

Selected Health Indicators¹

Access to health care and health insurance are important issues, with approximately 97,209 uninsured non-elderly adults residing in Ventura County. Approximately 15.7% of the non-elderly adult population is uninsured in Ventura County compared to 18.2% in California. Roughly 9.3% of the non-elderly adult population in Ventura County is covered by Medi-Cal.

A review of health status indicators for Ventura County (deaths, diseases, and births) reveals the following conclusions:

- The County is below average compared to both California and national numbers for birth statistics (Refer to Table A).
- The overall mortality rate is less than the State mortality rate (Refer to Table B). Chronic diseases are the main cause of death with heart disease and cancer accounting for almost half the mortality. Cerebrovascular disease and diabetes have higher death rates in Ventura County than State averages and are significantly above national goals.
- Chlamydia is the most frequently reported infectious disease in the County and is less than the incidence rate for California. The rates of incidence of AIDS and TB have declined with the AIDS incidence rate significantly less than the State rate (Refer to Table C). Hepatitis C, TB, syphilis, and measles are all less than the State incidence rates.

¹ California Department of Health Services County Health Status Profiles 2004, The State of Health Insurance in California, UCLA Center for Health Policy Research

The California Department of Health Services reports the following regarding Ventura County's health status profiles in 2004 (these numbers are based on a 3-year average from 2000 to 2002):

TABLE A: BIRTH STATISTICS, 2000-2002			
	Ventura County	California	National Goal
Low Birth Weight Infants	5.9%	6.3%	5.0%
Late or no Prenatal Care	9.8%	14.5%	10.0%
Birth Rate to Adolescents (per 1,000 births)	40.3	45.0	N/E
Infant Mortality Rate (per 1,000 births)	4.9	5.5	4.5

TABLE B: MORTALITY STATISTICS, 2000-2002			
RATE PER 100,000 POPULATION			
Selected Cause	Ventura County	California	National Goal
Cancer	175.1	172.7	159.9
Heart Disease	163.0	186.0	166.0
Cerebrovascular Disease	59.6	58.9	48.0
Unintentional Injuries	27.9	27.6	17.5
Diabetes	23.5	21.0	N/A
Suicide	9.5	9.5	5.0
Drug-Induced Deaths	9.3	8.6	1.0
All Causes	736.8	745.0	N/E

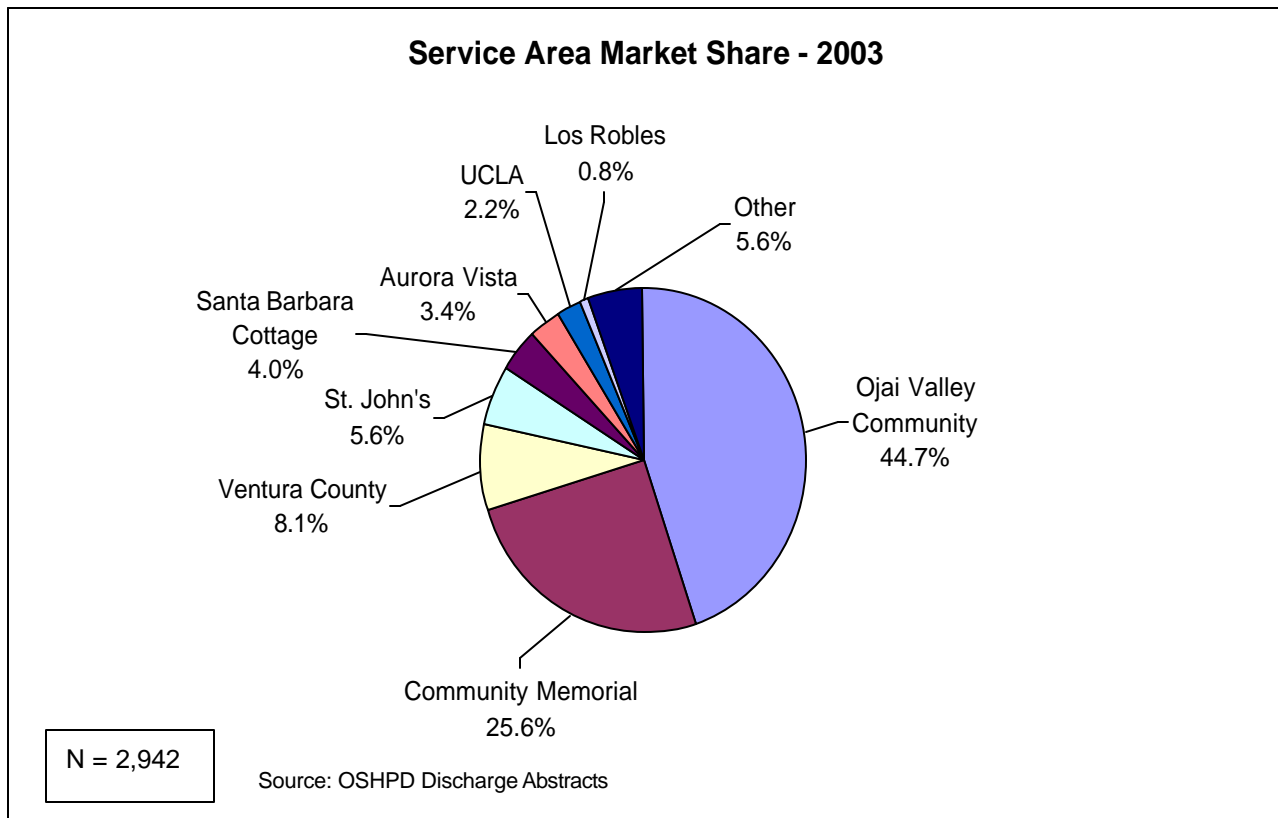
TABLE C: MORBIDITY STATISTICS, 2000-2002			
INCIDENCE RATE PER 100,000 POPULATION			
Health Status Indicator	Ventura County	California	National Goal
Hepatitis C	.04	.27	1.0
AIDS	5.72	15.23	1.0
Tuberculosis	7.07	9.27	1.0
Chlamydia	170.2	291.09	N/A
Syphilis	.17	1.81	.20
Measles	.04	.06	.00

Hospital Supply, Demand and Market Share

OVCH is the only hospital in its service area. There are two other area general acute care hospitals, one (Ventura County Medical Center) about 18 miles away from OVCH and the other (CMH) 21 miles. Almost half (45%) of service area patients utilize OVCH with an additional 26% utilizing CMH.

AREA HOSPITALS								
Facility	City	Type of Control	Type of Care	Licensed Beds	Available Beds	Patient Days	Occupancy	Miles from OVCH
Facilities within Service Area:								
OJAI VALLEY COMMUNITY HOSPITAL (FYE: 6/30/03)	Ojai	Non-Profit Corp	General Med Surg and Skilled Nursing	103	103	26,334	70.0%	-
Other Local Facilities								
AURORA VISTA DEL MAR (FYE: 12/31/03)	Ventura	Investor Corp	Psychiatric	87	87	20,273	63.8%	12.6
VENTURA COUNTY MEDICAL CENTER (FYE: 6/30/04)	Ventura	County	General Med Surg	223	196	49,172	68.7%	17.8
COMMUNITY MEMORIAL HOSP-SAN BUENAVENTURA (FYE: 12/31/03)	Ventura	Non-Profit Corp	General Med Surg	220	220	58,709	73.1%	20.5
ST. JOHNS REGIONAL MEDICAL CENTER (FYE: 6/30/04)	Oxnard	Non-Profit Corp	General Med Surg	266	266	65,819	67.8%	24.1
SANTA BARBARA COTTAGE HOSPITAL (FYE: 12/31/03)	Santa Barbara	Non-Profit Corp	General Med Surg	436	315	79,539	69.2%	42.3
SUB-TOTAL				1,232	1,084	273,512	69.1%	
TOTAL				1,335	1,187	299,846	69.2%	

- In 2003, there were 2,942 total general acute inpatient discharges from the OVCH service area.
- OVCH ranks first in market share within the service area (44.7%) followed by CMH which has 25.6% market share.
- Ventura County Medical Center has 8.1% market share.



OJAI VALLEY COMMUNITY HOSPITAL MARKET SHARE BY ZIP- 2003			
ZIP	OVCH Discharges	Total Service Area Discharges	Market Share
92022	235	663	35.4%
93023	1,040	2,208	47.1%
93024	40	71	56.3%
TOTAL:	1,315	2,942	44.7%

Source: OSHPD Patient Discharge Study

MARKET SHARE BY PAYER									
Hospital	Total Discharges	Traditional		Managed Care			PPO/EPO/POS	Private Insurance	All Others
		Medicare	MediCal	Medicare	Commercial	MediCal			
OJAI VALLEY COMMUNITY HOSPITAL	1,315	62.6%	22.3%	3.4%	57.0%	0.0%	18.6%	36.1%	30.4
COMMUNITY MEMORIAL HOSPITAL	753	17.5%	21.0%	74.3%	23.7%	0.0%	46.9%	12.0%	15.0%
VENTURA COUNTY MEDICAL CENTER	237	1.2%	27.4%	4.1%	1.8%	86.7%	0.5%	25.3%	34.3%
ST. JOHNS REGIONAL MEDICAL CENTER	165	6.7%	13.5%	2.7%	2.7%	0.0%	4.3%	1.2%	6.8%
SANTA BARBARA COTTAGE HOSPITAL	119	4.1%	0.6%	2.0%	4.3%	0.0%	9.2%	4.8%	0.5%
AURORA VISTA DEL MAR HOSPITAL	99	1.7%	4.8%	0.7%	5.2%	0.0%	5.1%	1.2%	2.4%
ALL OTHER	254	6.2%	10.3%	12.8%	5.3%	13.3%	15.4%	19.3%	10.6%
TOTAL	2,942	100%	100%	100%	100%	100%	100%	100%	100%

Source: OSHPD Patient Discharge Database

Indicates market share leader

- OVCH is the overall market share leader in the service area providing inpatient care to 45% of the people who require it. The Hospital's largest market share is in traditional Medicare (62.6%) and commercial managed care (57.0%).
- CMH Hospital has the highest percentage of Medicare managed care.
- Ventura County Medical Center, a County government facility, receives the highest portion of Medi-Cal, self-pay and indigent patients.

The table on the next page shows that:

- OVCH is the hospital market share leader in most service lines.
- A substantial portion of surgery patients go to CMH.

**OJAI SERVICE AREA
MARKET SHARE BY SERVICE LINES (2003)**

NAME	DISCHARGES	OJAI VALLEY COMMUNITY HOSPITAL	COMMUNITY MEMORIAL HOSPITAL	VENTURA COUNTY MEDICAL CENTER	ST. JOHN'S REGIONAL MEDICAL CENTER	SANTA BARBARA COTTAGE HOSPITAL	AUGORA VISTA DEL MAR HOSPITAL	ALL OTHER
CARDIOLOGY-DIAGNOSTIC/INTERVENTIONAL	96	13.5%	62.5%	0.0%	5.2%	7.3%	0.0%	11.5%
CARDIOLOGY-MEDICAL	254	71.7%	18.9%	4.7%	1.6%	0.8%	0.0%	2.4%
CARDIOLOGY-SURGERY	37	0.0%	59.5%	0.0%	8.1%	5.4%	0.0%	27.0%
CHEMICAL DEPENDENCY	34	20.6%	0.0%	47.1%	0.0%	8.8%	8.8%	14.7%
ENDOCRINE	78	53.8%	16.7%	11.5%	1.3%	5.1%	0.0%	11.5%
ENT	24	29.2%	29.2%	4.2%	4.2%	0.0%	0.0%	33.3%
GASTROENTEROLOGY	221	62.0%	18.6%	5.0%	2.7%	0.5%	0.0%	11.3%
GENERAL MEDICINE	175	69.7%	8.6%	8.0%	2.3%	2.3%	0.0%	9.1%
GENERAL SURGERY	202	43.1%	23.8%	8.4%	4.0%	6.4%	0.0%	14.4%
GYNECOLOGY	82	22.0%	52.4%	6.1%	3.7%	6.1%	0.0%	9.8%
NEONATAL INTESIVE CARE	55	0.0%	45.5%	21.8%	14.5%	12.7%	0.0%	5.5%
NEUROLOGY	164	72.0%	11.0%	1.8%	5.5%	3.0%	0.0%	6.7%
NEUROSURGERY	133	25.6%	40.6%	3.0%	6.8%	11.3%	0.0%	12.8%
OBSTETRICS & DELIVERIES	295	0.7%	66.1%	11.2%	11.9%	5.8%	0.0%	4.4%
ONCOLOGY	89	43.8%	28.1%	9.0%	2.2%	9.0%	0.0%	7.9%
OPHTHALMOLOGY	2	0.0%	50.0%	0.0%	50.0%	0.0%	0.0%	0.0%
ORTHOPEDICS	390	68.5%	11.0%	5.4%	6.2%	3.3%	0.0%	5.6%
PEDIATRICS	13	46.2%	23.1%	7.7%	0.0%	23.1%	0.0%	0.0%
PLASTIC SURGERY	8	0.0%	75.0%	25.0%	0.0%	0.0%	0.0%	0.0%
PSYCHIATRY	192	2.1%	0.0%	28.1%	5.2%	1.6%	50.0%	13.0%
PULMONARY MEDICINE	225	76.0%	15.1%	3.6%	1.8%	1.3%	0.0%	2.2%
REHABILITATION	23	8.7%	0.0%	0.0%	65.2%	0.0%	0.0%	26.1%
THORACIC & VASCULAR SURGERY	36	0.0%	55.6%	2.8%	27.8%	0.0%	0.0%	13.9%
TRANSPLANT	3	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
UROLOGY	111	51.4%	28.8%	4.5%	2.7%	3.6%	0.0%	9.0%
TOTAL	2,942	44.7%	25.6%	8.1%	5.6%	4.0%	3.4%	8.6%
DISCHARGES		1,315	753	237	165	119	99	254

SOURCE: OSPHD 2003 INPATIENT DISCHARGE DATABASE



Indicates market share leader

OVCH has a narrow array of services compared to other regional competitors. CMH, St. John's Regional Medical Center and Santa Barbara Cottage Hospital each have some tertiary level services. Except for the outpatient migraine headache clinic, OVCH does not provide any unique services in the region.

SERVICE COMPARISON					
PROGRAM/SERVICES	OJAI VALLEY COMMUNITY HOSPITAL	COMMUNITY MEMORIAL HOSPITAL SANBUENAVENTURA	VENTURA COUNTY MEDICAL CENTER	ST JOHN'S REGIONAL MEDICAL CENTER	SANTA BARBARA COTTAGE HOSPITAL
Adult Day Care Program			DID NOT REPORT		
Alcohol-Drug Abuse or Dependency Inpatient					V
Angioplasty		V		V	V
Birthing Room-LDR Room-LDRP Room		V		V	V
Breast Cancer Screening-Mammography	V	V		V	V
Burn Care Services				V	
Cardiac Catheterization Laboratory		V		V	V
Emergency Department	V	V		V	V
Extracorporeal Shock Wave Lithotripter (ESWL)	V	V			V
Hemodialysis		V		V	
HIV -AIDS Services					
Home Health					
Magnetic Resonance Imaging (MRI)	V	V		V	V
Medical Surgical Intensive Care Services	V	V		V	V
Neonatal Intensive Care Services		V		V	V
Obstetrics Services		V		V	V
Occupational Health Services	V	V		V	V
Oncology Services		V		V	V
Open Heart Surgery				V	V
Outpatient Surgery	V	V		V	V
Pain Management	V			V	V
Pediatric Intensive Care Services					V
Physical Rehabilitation Inpatient Services					
Physical Rehabilitation Outpatient Services	V	V		V	V
Positron emission tomography scanner (PET)		V			
Psychiatric Care				V	V
Radiation Therapy					
Single Photon Emiss. Computerized Tomog.		V			
Skilled Nursing	V				V
Transplant Services					
Trauma Center (Certified)					V
Source: American Hospital Association Guide - 2003/2004, 2002/2003					

Medical/Surgical Services

OVCH has a 25% occupancy rate for medical/surgical services (with an average daily census of less than 9 patients in 2003 and less than 7 patients in 2004). The rate is well below the average among area hospitals (55.2%). There is adequate medical/surgical bed capacity in the area to accommodate volume growth in the foreseeable future. The closure of Santa Paula Memorial Hospital had very little or no effect on OVCH patient volumes. While the potential closure of services at OVCH would create access problems for the residents and visitors of Ojai, it would have little impact outside of the service area as the volume of Ojai patients could easily be absorbed at area hospitals.

MEDICAL/SURGICAL SERVICES			
Facility	Patient Days	Licensed Beds	
		Number	Occupancy
OJAI VALLEY COMMUNITY HOSPITAL	3,013	33	25.0%
COMMUNITY MEMORIAL HOSP SAN BUENAVENTURA	38,562	160	66.0%
ST. JOHN'S REGIONAL MEDICAL CENTER	36,383	157	63.5%
VENTURA COUNTY MEDICAL CENTER	20,206	97	57.1%
SANTA BARBARA COTTAGE	47,939	261	50.3%
SANTA PAULA MEMORIAL HOSPITAL	4,100	38	29.6%
TOTAL	150,203	746	55.2%

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed fiscal year).

Intensive Care

OVCH has a four-bed ICU/CCU (with an average daily census of approximately two patients), which supports the provision of higher acuity emergency services. The closest hospitals to Ojai with ICU/CCU units are Ventura County Medical Center and CMH. Both of these hospitals have high occupancy rates in their units. There are periods when their ICU/CCU beds are not available and their emergency rooms will go on diversion. While there is a need for additional beds in Ventura, the OVCH ICU/CCU patient volume is so small that closure of the facility would not have much of an effect on the overall availability of ICU/CCU services in the County.

ADULT ICU/CCU SERVICES			
FACILITY	Licensed Beds	Pt. Days	Occupancy
OJAI VALLEY COMMUNITY HOSPITAL	4	796	54.5%
COMMUNITY MEMORIAL HOSP SAN BUENAVENTURA	21	7,084	92.4%
ST. JOHN'S REGIONAL MEDICAL CENTER	10	3,246	88.9%
VENTURA COUNTY MEDICAL CENTER	9	2,639	80.3%
SANTA BARBARA COTTAGE	40	8,011	54.9%
SANTA PAULA MEMORIAL HOSPITAL	6	1,027	46.9%
TOTAL	90	22,803	69.4%

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed fiscal year).

CMH has a short-term plan to open a "Progressive Care Unit" that can act as a step down unit thereby increasing the availability of ICU/CCU beds. CMH also has a long-term plan to add 12 additional ICU/CCU beds as part of their hospital reconstruction plan to be completed in 2011.

Emergency Services

OVCH operates 4 emergency stations/beds with 7,822 visits in FY 2004. Compared to other area hospitals, OVCH's emergency department treats proportionately fewer patients with severe medical conditions. OVCH received 1,022 ambulance transports into its facility in 2004 and transferred 349 patients out. Ventura County Emergency Medical Services representatives believe that OVCH is very important to the provision of emergency medical services in the County.

Emergency Services - Visits By Category										
Hospital	ER Level	Stations	VISITS						Admitted	Miles from OVCH
			Tot	Minor	Low/Mod	Mod	Sev w/o threat	Sev w/ threat		
OJAI VALLEY COMMUNITY HOSPITAL	Standby	4	7,822	1,276	1,773	3066	1151	556	686	-
VENTURA COUNTY MEDICAL CENTER	Basic	16	32,602	5,280	11,832	7,669	3,532	4,289	5,782	17.8
COMMUNITY MEMORIAL HOSPITAL SAN BUENAVENTURA	Basic	16	33,614	2887	23,236	6,194	1,078	219	0	20.5
ST. JOHNS REGIONAL MEDICAL CENTER*	Basic	20	42,727				<i>DID NOT REPORT</i>			24.1
SANTA BARBARA COTTAGE HOSPITAL	Basic	27	36,949	2,586	7,468	9,900	14,638	2,357	8,078	42.3
TOTAL:		83	153,714	12,029	44,309	26,829	20,399	7,421	14,546	

Sources: ALIRTS (2003, 2004 Reports); Mapquest.com
 * Source: OSPHD (based on calendar year; website file: aauth_2001_profile)

The American College of Emergency Physicians (“ACEP”) uses a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of emergency departments. Based upon this benchmark but accounting for the low acuity of OVCH emergency patients, the Hospital can probably accommodate some additional visits without significant additional operational difficulty. Unless physicians leave the Ojai area, which may cause their patients to seek care at the emergency department as an alternative, the number of beds are sufficient to handle some increase in volume due to population growth.

The two Ventura area hospitals report visits per bed per year slightly over the ACEP benchmark, indicating that there are probably times of full occupancy and long patient waits at area emergency departments.

If the OVCH emergency department was closed, other hospitals could have trouble accommodating the resulting additional volume. Based upon the results of our analysis, we conclude that the OVCH emergency department is needed for patient access to health care not only for Ojai residents but also to avoid further adversely affecting Ventura hospital emergency departments.

LOCAL EMERGENCY ROOM CAPACITY

Hospital	Total Visits	Level	Stations	Approximate Capacity (Visits) (1)	Remaining Capacity (Visits)	Distance to OVCH
OJAI VALLEY COMMUNITY HOSPITAL	7,822	Standby	4	8,000	178	-
VENTURA COUNTY MEDICAL CENTER	32,602	Basic	16	32,000	(602)	17.8
COMMUNITY MEMORIAL HOSPITAL SAN BUENAVENTURA	33,614	Basic	16	32,000	(1,614)	20.5
ST. JOHNS REGIONAL MEDICAL CENTER	42,727	Basic	20	40,000	(2,727)	24.1
SANTA BARBARA COTTAGE HOSPITAL	36,949	Basic	27	54,000	17,051	42.3
TOTAL	153,714		83	166,000	12,286	

(1) Estimated at 2,000 per station

Sources: ALIRTS (2003, 2004 Reports); Mapquest.com

Sources: OSHPD (based on calendar year, website file: aurb_2002_profile & aurb_2001_profile for St. Johns)

Skilled Nursing/Sub-Acute

OVCH's skilled nursing patients are mostly long-term patients with average stays close to 100 days (some potentially spend years in the facility). As shown below, there are two other skilled nursing facilities in the service area with some capacity (but not enough to absorb OVCH's volume if it were to close). If the 66 beds at OVCH were eliminated, patients would have to seek placement in Ventura, Oxnard, Santa Barbara or facilities located elsewhere.

LOCAL STAND-ALONE SKILLED NURSING FACILITIES - 2003							
FACILITY	MILES FROM OVCH	REPORTING DAYS	LICENSED CATEGORIES	BEDS	PATIENT DAYS	OCCUPANCY	BED AVAILABILITY
ACACIAS CARE CENTER	1.7	365	SNF	50	14,125	77.4%	11
ST. JOSEPH'S HEALTH & RETIREMENT CTR	3.0	365	SNF/RES	28	9,679	98.2%	0
VICTORIA CARE CENTER	19.7	365	SNF	188	59,548	86.7%	24
VENTURA CONVALESCENT HOSPITAL	20.2	365	SNF	71	18,651	72.0%	20
VENTURAN CONVALESCENT CENTER	21.0	365	SNF	97	21,380	60.4%	38
TOTAL:				434	123,383	78.6%	93
Source: OSHPD website, file: lafd1203							

SUMMARY OF COMMUNITY INTERVIEWS

Interviews were conducted in February 2005 at various community locations with numerous health care and community representatives. The purpose of the interviews was to determine if area health care professionals or community representatives had knowledge regarding potential impacts on health care availability or accessibility as a result of the proposed hospital merger. The major findings of the interviews are summarized below.

Reasons for the Merger with CMH

Board members, physicians, management and community representatives believe that while emergency and other services of OVCH are essential to the community, it has become financially difficult to operate the Hospital. Factors believed to contribute to financial difficulties include:

- Increasing labor, supplies, insurance, pharmacy and other costs
- State mandated nursing staff ratios
- Low managed care and governmental reimbursement
- High overhead costs in relation to the small patient volume of the Hospital
- Increased competition
- Reduced patient volumes

Those interviewed believe that if OVCH did not sell or merge, it may eventually be forced to close because of financial insolvency.

According to its CEO, CMH is interested in the merger as part of its non-profit mission to deliver health care services. The CMH Board desires to assist OVCH to preserve health care services as long as the Hospital's poor financial performance does not jeopardize the ability of CMH to fulfill its own community responsibilities. The CMH Board, however, believes that it can successfully assist OVCH to attain greater efficiencies, preserve current clinical services and improve health care in Ojai.

Merger with CMH

The OVCH Board and management are hopeful that CMH can bring efficiencies to the Hospital that will help stabilize the financial performance of the Hospital. CMH is well regarded and frequently used by Ojai Valley residents and physicians. Potential benefits from the merger include:

- Cost savings through the consolidation of administrative support services such as billing, collections, human resources, finance, etc.

- Additional patient volume because of the positive reputation and marketing of CMH
- New physicians and specialty coverage because of the potential for expanded and improved access to CMH medical staff and services
- Improved access to information systems and health care technologies
- Access to a larger pool of nurses and technicians to fill staffing vacancies
- Better salaries and wages for employees
- New capital investment in equipment and facilities
- Opportunity to access the broader and deeper support services and expertise of CMH

Everyone interviewed was supportive of the merger with CMH and no opposition was expressed.

Possible Effects of the Merger

Overall, those interviewed were supportive of the Hospital's merger with CMH and, in general, were not concerned about negative effects to the availability or accessibility of health care services. Interviewees are optimistic that the relationship with CMH would bring improvements to the Hospital's services. Most believed that if not for the CMH merger, the facility would likely close. Some expressed concern that, if financial losses continue, CMH could curtail or eliminate services.

Possible Effects of Closure

Everyone interviewed expressed concern that if the merger did not succeed, OVCH would have to be closed. Interviewees believe that closure would have a very negative effect on the community for the following reasons:

- The nearest alternative hospital is at least a twenty minute drive on canyon roads. Rainy weather can cause flooding and mudslides and make the nearest facilities in Ventura inaccessible, which recently occurred for two days in February 2005.
- Ojai is a destination location for tourists desiring to camp, fish, hike, motorcycle and boat. The area has a resort golf course, spas, tennis programs and horseback riding. Because of tourism, the area population can, reportedly, swell to over twice its normal size and create additional seasonal demand for health care services.
- Ojai is home to numerous private schools that are comforted by the presence of a local hospital.
- According to the Administrator of the County of Ventura Emergency Medical Services, it is "critical" that the emergency services at OVCH remain open to serve area residents and

visitors. Closing the emergency department could frequently delay the timely provision of care and also require more ambulances in order to be able to cover the service area.

- There are no other alternatives to the Hospital for most outpatient diagnostic services without traveling to Ventura, which is difficult for many area residents and visitors.
- The skilled nursing unit offers a short and long-term alternative in the community for patients needing care or rehabilitation. The unit handles a higher acuity patient than the other alternatives in the Ojai area. If the Hospital closed, many patients and families would probably need to leave the community to find similar services.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTH CARE SERVICES

General Acute Care

OVCH admits approximately 1,500 general acute care inpatients per year and has an average daily census of about 10 patients. While the services are very important to area residents and visitors, an analysis of the supply and demand of area hospitals beds shows that there is sufficient capacity to easily absorb OVCH's historical patient volumes related to general acute care.

The merger agreement states that OVCH will continue to be licensed as a general acute care hospital for a period of not less than three years from the merger date; however, the agreement allows the CMH Board options to discontinue hospital services and operations.

Emergency Services

OVCH, with 4 emergency beds, had about 7,800 emergency department visits in 2004. This is close to the 2,000 visits/bed capacity benchmark of the American College of Emergency Physicians for community hospitals. The emergency department received 1,022 patient transports by ambulance in the 2004 calendar year. Many patients are treated at OVCH, but some are stabilized and transported to other hospitals. In 2004, 349 patients were transferred to another hospital because of OVCH's inability to treat them adequately or because of reasons related to insurance coverage.

CMH and Ventura County Medical Center are the main alternatives for service area residents requiring emergency services. CMH, with 16 emergency beds, has a volume of approximately 34,000 emergency department visits per year. Ventura County Medical Center, also with 16 emergency beds, has a volume of approximately 33,000 visits per year. Both hospital emergency rooms are near capacity according to the ACEP benchmark. Together both hospitals may be able to absorb the 7,800 additional emergency visits if the emergency department at OVCH were closed; however, longer patient waiting times and additional ambulance diversions would result. Because of the distance to other alternative emergency departments and their current levels of volume, the closure of OVCH's emergency department would result in a negative impact on the availability and accessibility of emergency services.

Skilled Nursing Unit

Currently, 66 beds are licensed and operated for skilled nursing care. The unit has operated at a high occupancy, frequently over 90% for much of the past five years. Recently, in 2004 and 2005, occupancy has been below 70%. Other skilled nursing services exist in the area but are also at a high occupancy and could not absorb the patient demand if OVCH were to close. Additional facilities with available capacity are located in Ventura, Santa Barbara and Oxnard.

The Merger Agreement does not provide separate provisions or commitments for the operation of the skilled nursing unit.

Although only approximately 200 long-term care patients are served in the unit per year, the closure of the unit would have a significant negative impact on the availability and accessibility to these services for the small portion of the population that requires skilled nursing.

Effects on Services to Medi-Cal, County Indigent and Other Classes of Patients

While approximately 8% of the service area population is Medi-Cal eligible, OVCH serves only a small proportion of Medi-Cal and indigent patients. This is partially because these Medi-Cal patients access other physicians, clinics and the Ventura County Medical Center (a county facility) for services.

Emergency services at OVCH will continue to be available to Medi-Cal and indigent patients. OVCH expects to continue with a Medi-Cal contract for services and patients can continue to access Ventura County Medical Center, which is 18 miles away or CMH which is 21 miles away. Both hospitals each currently see about as many of the Medi-Cal patients from Ojai as OVCH.

Effects on the Level and Type of Charity Care Historically Provided

OVCH historically provided charity care averaging \$314,706 over the last three years on a charge basis or \$161,129 on a cost basis. CMH agrees that after the closing date, it will provide charity care services at OVCH consistent with the charity care policies and procedures of CMH, with an average annual amount determined as a rolling average to be at least equivalent to the amount from the most recent three years of OSHPD data reported for OVCH.

Effects on Community Benefit Programs

OVCH operates a Rural Health Clinic, staffed by a physician, in Oak View. OVCH's other community benefit services have included health fairs, community education and screening programs none of which are estimated to have exceeded \$10,000 in cost. While CMH is likely to provide community benefit services, it has not made this commitment in the Merger Agreement.

Effects on Staffing and Employee Rights

CMH expects to continue the employment of all clinical personnel. It does expect to eliminate or consolidate some business office and other non-clinical support positions. Because CMH's intent is to continue to operate substantially all current clinical services, the merger is not expected to affect many employees. In fact, employees, in general, seem pleased with the merger with CMH because:

- CMH is expected to bring greater financial stability enabling employees to retain their jobs
- Salary, wages and benefits are believed to be comparatively better at CMH
- New positions and opportunities may be created locally and, perhaps, regionally within CMH

Effects on Medical Staff

The effects of the Hospital merger on the medical staff are positive especially compared to the alternative of closure. Physicians interviewed believe that CMH is the best choice for a merger or sale for OVCH. Without some assurances that the hospital would remain open, many physicians could leave the community, creating health care access problems for patients. Physicians believe that the relationship with CMH will help stabilize the medical staff and bring additional specialists to Ojai.

Alternatives

If the proposed merger is not approved, OVCH may continue to operate the Hospital for the near term or look for another partner. Given the adverse financial circumstances, closure could be a distinct possibility.

CONCLUSIONS

Due to increasing financial losses, diminishing census and the costs of seismic and other capital improvements, OVCH determined that it needed to find a partner or risk bankruptcy and/or closure.

The Board and administration of OVCH believe that CMH, a non-profit organization, is the most qualified purchaser and can potentially bring operational and financial stability to OVCH as well as improvements to health care services. CMH has agreed to merge with OVCH and desires to maintain the Hospital as a general acute care hospital with an emergency department and to maintain the on campus skilled nursing facility. However, CMH in its due diligence, has determined that OVCH may be difficult to operate successfully with its current configuration of services and wants to preserve the ability to make changes as needed in order for the hospital to be financially viable.

The current merger agreement between CMH and OVCH allows the CMH Board to change or discontinue services at OVCH. It also allows CMH to close the facility if it is not financially sustainable and if the OVCH Foundation does not exercise an option to accept a return of the remaining OVCH assets. The conditions of the option prohibit the Foundation from merging, selling or transferring assets or control to a third party which competes with CMH.

As described in this report, there are negative effects on the accessibility and availability of health care services that would result from the closure of OVCH. The most important services or resources that would be lost if OVCH were to close are:

1. The 4-bed emergency department which is important for timely medical response for area residents and visitors
2. The surgery capabilities
3. The medical, surgical and intensive care bed capacity in the local area
4. The skilled nursing facility
5. The diagnostic services that are only available locally at the Hospital (e.g. CT scanning, mammography, radiology)
6. The loss of charity care and other community benefit services provided by OVCH
7. Loss of the Hospital would also make it more difficult for the community to retain area physicians.

Because tourism, private education and retirement housing are all important parts of local commerce that generate health care service demands, closure of the hospital may discourage

interest in Ojai as a destination and thereby also have a deleterious economic effect on the community.

Merger Agreement Mitigation Measures

As described in the Background and Description of the Transaction section of this report, CMH in the merger agreement has also agreed to provide charity care, at the OVCH location, equivalent to the average amount provided over the previous three prior fiscal years (measured on a three year rolling average basis).

Potential Conditions for Transaction Approval by the Attorney General

The Merger Agreement does not reflect many commitments that CMH is willing to consider to mitigate potential adverse effects on the availability and accessibility of health care services. CMH has verbally agreed with many of the following proposed mitigation measures:

1. CMH should maintain the OVCH existing emergency services, at current licensure and levels of service, for at least three years.
2. CMH should continue to provide 24-hour emergency services in Ojai for at least an additional two years, even if other hospital services are curtailed.
3. CMH should continue to operate a minimum of 15 general acute care beds at OVCH for at least three years.
4. CMH should continue to operate a minimum of 45 skilled nursing beds for at least three years. If after three years CMH chooses to reduce or eliminate skilled nursing beds, CMH should arrange for suitable placement for patients at an alternative facility that is comparable in location, cost and services.
5. CMH should continue to operate the Rural Health Clinic for at least five years.
6. CMH should expend at least \$50,000 annually in community benefit services that provide education, screening, primary care or other similar health care services for medically underserved area residents.
7. CMH should provide at least \$160,000 in charity care costs (not charges) for each year of hospital operation from the transaction closing date. The amount of any annual shortfall in charity care should be contributed to the Foundation.
8. CMH should give start up funding of at least \$50,000 to the OVCH Foundation to continue operations after the merger.
9. The Foundation should act as an advisory body to CMH and provide suggestions to CMH about community health care issues and hospital operations on at least a semi-annual

basis. CMH should meet and confer with the Foundation Board before making any decisions affecting health care services in Ojai, including changes in the type and level of services provided at OVCH.

10. The Merger Agreement should be amended to allow the OVCH Foundation the opportunity to accept a transfer of assets at fair market value in the event CMH determines that the services of the Hospital are not sustainable, without restrictions regarding ownership structure.

Recommended Action

Medical Development Specialists recommends conditional approval of the proposed transaction subject to acceptance of the mitigation measures described in the previous section.